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To the Board of Directors
Big Sandy Rural Electric Cooperative Corporation

I have audited the financial statements of Big Sandy Rural Electric Cooperative Corporation for the year ended December 31, 2012, and have issued my report thereon dated January 18, 2013. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on audits of the Rural Utilities Service (RUS) Borrowers. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing my audit of the financial statements of Big Sandy for the year ended December 31, 2012, I considered its internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting that I consider to be a material weakness.

7 CFR Part 1773.3 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions and other additional matters. I have grouped my comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, I performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, material control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.3(d)(1) related transactions, depreciation rates, a schedule of deferred debits and credits and a schedule of investments, upon which I express an opinion. In addition, my audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-.45. My Objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, I express no opinion thereon.

No reports, other than my independent auditor's report, and my independent auditor's report on internal control over financial reporting and compliance and other matters, all dated January 18, 2013, or summary of recommendations related to my audit have been furnished to management.

My comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions and other additional matters as required by 7 CFR Part 1773.33 are presented below.

Comments on Certain Specific Aspects of the Internal Control Over Financial Reporting

I noted no matters regarding Big Sandy's internal control over financial reporting and its operation that I consider to be a material weakness as previously defined with respect to:

- The accounting procedures and records;
- the process for accumulating and recording labor, material and overhead costs, and the distribution of these costs to construction, retirement, and maintenance and other expense accounts, and;
- the material controls.

Comments on Compliance with Specific RUS Loan and Security Instrument Provisions

At your request, I have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, and contracts. The procedures I performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others for the year ended December 31, 2012, of Big Sandy.
    1. Big Sandy has not entered into any contract during the year for the operation or maintenance of its property, or for the use of its property by others as defined in 1773.33(e)(1)(i).
- Procedures performed with respect to the requirement to submit RUS *Financial and Operating Report Electric Distribution* to RUS:
    1. Agreed amounts reported in RUS *Financial and Operating Report Electric Distribution* to Big Sandy's records as of December 31, 2012.

The results of my tests indicate that, with respect to the items tested, Big Sandy complied in all material respects, with the specific RUS loan and security instrument provisions referred to below. With respect to items not tested, nothing came to my attention that caused me to believe that Big Sandy had not complied, in all material respects, with those provisions. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower has submitted its RUS *Financial and Operating Report Electric Distribution* to RUS and the *Financial and Operating Report Electric Distribution*, as of December 31, 2012, represented by the borrower as having been submitted to RUS appears to be in agreement with its audited records in all material respects.
- During the period of this review, Big Sandy received no long term advances from CFC on loans controlled by the RUS/CFC Mortgage and Loan Agreement.

Comments on Other Additional Matters

In connection with my audit of Big Sandy, nothing came to my attention that caused me to believe that Big Sandy failed to comply with respect to:

- The reconciliation of continuing property records to controlling general ledger plant accounts addressed at 7 CFR Part 1773.33(c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33(c)(2);
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4);
- Approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap addressed at 7 CFR Part 1773.33(c)(5);
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standard No. 57, Related party Transactions, for the year ended December 31, 2012, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.33(f);
- The depreciation rates addressed at 7 CFR Part 1773.33(g);
- The detailed schedule of deferred debits and deferred credits; and
- The detailed schedule of investments, of which there were none.

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of deferred debits and deferred credits required by 7 CFR Part 1773(h) and provided below is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The deferred credits are as follows:

Consumer advances for construction	$29,385

This report is intended solely for the information and use of the Board of Directors, management, RUS, and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

Alan M. Zumstein

Alan M. Zumstein, CPA
January 18, 2013

PUBLIC SERVICE COMMISSION
ANNUAL REPORT BRANCH

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Kentucky 58

Big Sandy Rural Electric Cooperative Corporation

Paintsville, Kentucky

Audited Financial Statements
December 31, 2012

Alan M. Zumstein
Certified Public Accountant
1032 Chetford Drive
Lexington, Kentucky 40509

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Independent Auditor's Report

To the Board of Directors
Big Sandy Rural Electric Cooperative Corporation

I have audited the accompanying balance sheet of Big Sandy Rural Electric Cooperative Corporation, as of December 31, 2012, and the related statements of income and patronage capital, comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of Big Sandy Rural Electric Cooperative Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit. The financial statements of Big Sandy Rural Electric Cooperative Corporation as of December 31, 2011, were audited by other auditors whose report dated April 11, 2012, expressed an unqualified opinion on those statements.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of Big Sandy Rural Electric Cooperative Corporation as of December 31, 2012, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 18, 2013, on my consideration of Big Sandy Rural Electric Cooperative Corporation's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Alan M. Zumstein

Alan M. Zumstein, CPA
January 18, 2013

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To the Board of Directors
Big Sandy Rural Electric Cooperative Corporation

I have audited the financial statements of Big Sandy Rural Electric as of and for the year ended December 31, 2012, and have issued my report thereon dated January 18, 2013. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Big Sandy's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Big Sandy's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Big Sandy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more that a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Big Sandy's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, the Rural Utilities Service, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.

Alan M. Zumstein

Alan M. Zumstein, CPA
January 18, 2013

Big Sandy Rural Electric Cooperative Corporation
Balance Sheets, December 31, 2012 and 2011

Assets	2012	2011
Electric Plant, at original cost:		
In service	$ 45,865,074	$ 44,366,590
Under construction	2,173,200	282,674
	48,038,274	44,649,264
Less accumulated depreciation	14,873,816	13,453,190
	33,164,458	31,196,074
Investments in Associated Organizations	10,438,636	9,185,532
Current Assets:		
Cash and cash equivalents	972,485	834,434
Accounts receivable, less allowance for 2012 of $139,311 and 2011 of $117,710	3,467,076	3,250,404
Other receivables	311,197	250,660
Material and supplies, at average cost	337,879	391,186
Other current assets	20,043	19,706
	5,108,680	4,746,390
Total	$ 48,711,774	$ 45,127,996

Members' Equities and Liabilities	2012	2011
Members' Equities:		
Memberships	$ 232,520	$ 232,340
Patronage capital	18,786,955	17,280,156
Other equities	445,883	430,709
Accumulated other comprehensive income	(2,844,833)	(660,528)
	16,620,525	17,282,677
Long Term Debt	23,292,274	21,262,229
Accumulated Postretirement Benefits	3,855,796	1,547,992
Current Liabilities:		
Short term borrowings	514,909	500,000
Accounts payable	2,328,496	2,353,311
Current portion of long term debt	1,050,000	1,000,000
Consumer deposits	673,630	664,277
Accrued expenses	346,759	490,588
	4,913,794	4,933,176
Consumer Advances	29,385	26,922
Total	$ 48,711,774	$ 45,127,996

The accompanying notes are an integral part of the financial statements.

Statements of Revenue and Comprehensive Income
for the years ended December 31, 2012 and 2011

	2012	2011
Operating Revenues	$ 25,936,824	$ 26,431,734
Operating Expenses:		
Cost of power	18,308,406	18,824,313
Distribution - operations	837,469	838,615
Distribution - maintenance	1,357,803	1,305,834
Consumer accounts	895,724	779,820
Customer services	116,854	142,334
Sales	3,265	9,238
Administrative and general	1,243,473	1,217,374
Depreciation, excluding $218,435 in 2012 and $199,786 in 2011 charged to clearing account	2,016,944	1,939,171
Taxes, other than income	23,111	26,017
Other deductions	9,592	17,358
	24,812,641	25,100,074
Operating margins before interest charges	1,124,183	1,331,660
Interest Charges:		
Long-term debt	822,866	926,623
Other	65,655	98,703
	888,521	1,025,326
Operating margins after interest charges	235,662	306,334
Nonoperating Margins		
Interest income	48,789	30,888
Others	-	-
	48,789	30,888
Patronage Capital Credits	1,290,313	1,427,206
Net Margins	1,574,764	1,764,428
Comprehensive income:		
Accumulated postretirement benefits	111,480	111,480
Comrehensive Income	$ 1,686,244	$ 1,875,908

The accompanying notes are an integral part of the financial statements.

Statements of Cash Flows
for the years ended December 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Net margins (deficit)	$ 1,574,764	$ 1,764,428
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation:		
Charged to expense	2,016,944	1,939,171
Charged to clearing accounts	218,435	199,786
Patronage capital credits assigned	(1,290,313)	(1,427,206)
Accumulated postretirement benefits	12,019	109,899
Change in assets and liabilities:		
Receivables	(277,209)	729,539
Material and supplies	53,307	48,750
Other assets	(337)	(5,116)
Payables	(24,815)	(410,278)
Consumer deposits and advances	11,816	43,569
Accrued expenses	(143,829)	124,630
	2,150,782	3,117,172
Cash Flows from Investing Activities:		
Plant additions	(3,959,084)	(2,403,952)
Plant removal costs	(304,754)	(304,499)
Salvage recovered from retired plant	60,075	(7,005)
Receipts from other investments, net	37,209	26,155
	(4,166,554)	(2,689,301)
Cash Flows from Financing Activities:		
Net increase in memberships	180	465
Refund of patronage capital to members	(67,965)	(40,488)
Increase in other equities	126,654	10,474
Short term borrowings	14,909	500,000
Payments on long term debt	(1,109,550)	(861,756)
Advances of long term debt	2,500,000	1,000,000
Advance payments	689,595	(680,206)
	2,153,823	(71,511)
Net increase in cash	138,051	356,360
Cash and cash equivalents, beginning of year	834,434	478,074
Cash and cash equivalents, end of year	$ 972,485	$ 834,434
Supplemental cash flows information:		
Interest paid on long-term debt	$ 943,322	$ 843,442

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Members' Equity
for the years ended December 31, 2011 and 2012

	Memberships	Patronage Capital	Other Equity	Accumulated Other Comprehensive Income	Total Members' Equity
Balance - Beginning of year	$ 231,875	$ 15,598,083	$ 378,368	$ (772,008)	$ 15,436,318
Comprehensive income:					
Net margins		1,764,428			1,764,428
Postretirement benefit obligation					
Amortization				111,480	
Adjustments				-	111,480
Total comprehensive income					1,875,908
Net change in memberships	465				465
Refunds to estates		(40,488)			(40,488)
Transfers to other equity and prior year's deficits		(41,867)	41,867		-
Other equities			10,474		10,474
Balance - December 31, 2011	232,340	17,280,156	430,709	(660,528)	17,282,677
Comprehensive income:					
Net margins		1,574,764			1,574,764
Postretirement benefit obligation					
Amortization				111,480	
Adjustments				(2,295,785)	(2,184,305)
Total comprehensive income					(609,541)
Net change in memberships	180				180
Refunds to estates		(67,965)			(67,965)
Transfers to other equity and prior year's deficits					-
Other equities			15,174		15,174
Balance - December 31, 2012	$ 232,520	$ 18,786,955	$ 445,883	$ (2,844,833)	$ 16,620,525

The accompanying notes are an integral part of the financial statements.

Note 1. Summary of Significant Accounting Policies

Big Sandy Rural Electric Cooperative ("Big Sandy") maintains its records in accordance with the policies prescribed or permitted by the Kentucky Public Service Commission ("PSC") and the United States Department of Agriculture, Rural Utilities Service ("RUS"), which conform in all material respects with generally accepted accounting principles. The more significant of these policies are as follows:

Electric Plant Electric plant is stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. There was no interest required to be capitalized during the year.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. Electric plant consists of:

	2012	2011
Distribution plant	$42,151,671	$40,831,572
General plant	3,713,403	3,535,018
Total	$45,865,074	$44,366,590

Depreciation Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Depreciation rates range from 2.2% to 6.67%, with a composite rate of 4.7% for distribution plant. General plant rates range from 2.5% to 17%.

Cash and Cash Equivalents Big Sandy considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. Big Sandy maintains its cash balances, which may exceed the federally insured limit, with several financial institutions. These financial institutions have strong credit ratings and management believes that credit risk related to the accounts is minimal.

Revenue Big Sandy records revenue as billed to its consumers based on monthly meter-readings through the end of the month. All consumers are required to pay a refundable deposit, however, it may be waived under certain circumstances. Big Sandy's sales are concentrated in a six county area of southeastern Kentucky. There were no consumers whose individual account balance exceeded 10% of outstanding accounts receivable at December 31, 2012 or 2011. Consumers must pay their bill within 20 days of billing, then are subject to disconnect after another 10 days. Accounts are written off when they are deemed to be uncollectible. The allowance for uncollectible accounts is based on the aging of receivables.

Big Sandy is required to collect, on behalf of the State of Kentucky, sales taxes based on 6 percent of gross sales from non-residential consumers, a 3 percent school tax from certain counties on most gross sales, and franchise fees in certain cities. Big Sandy's policy is to exclude sales tax from revenue when collected and expenses when paid and instead, record collection and payment of sales taxes through a liability account.

Cost of Power Big Sandy is one of sixteen members of East Kentucky Power Cooperative, Inc. ("East Kentucky"). Under a wholesale power agreement, Big Sandy is committed to purchase its electric power and energy requirements from East Kentucky until 2051. The rates charged by East Kentucky are subject to approval of the PSC. The cost of purchased power is recorded monthly during the period in which the energy is consumed, based upon billings from East Kentucky.

Advertising Big Sandy expenses advertising costs as incurred.

Note 1. Summary of Significant Accounting Policies, continued

Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the preparation of the financial statements.

Fair Value Measurements The Fair Value Measurements and Disclosures Topic of the FASB ASC 820, *Fair Value Measurements and Disclosures,* defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The Fair Values Measurements Topic establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities

Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3: Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The carrying amounts of Big Sandy's cash and cash equivalents, other receivables, investments, inventories, other assets, trade accounts payable, accrued expenses and liabilities, and other liabilities approximate fair value due to their short maturity. Investments in associated organizations are not considered a financial instrument because they represent nontransferable interests in associated organizations. Other assets and liabilities are not considered financial instruments because they represent activities specifically related to Big Sandy. Long term debt can not be traded in the market, and is specifically for electric cooperatives and, therefore, a value other than its outstanding principal cannot be determined.

Big Sandy may, and also does, invest idle funds in local banks and in National Rural Utilities Cooperative Finance Corporation ("CFC") commercial paper. The inputs used to measure idle funds are Level 1 measurements, as these funds are exchange traded funds in an active market.

Risk Management Big Sandy is exposed to various forms of losses of assets associated with, but not limited to, fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, workers compensation, etc. Each of these areas is covered through the purchase of commercial insurance.

Comprehensive Income Comprehensive income includes both net margin and other comprehensive income. Other comprehensive income represents the change in funded status of the accumulated postretirement benefit obligation.

Contingencies Big Sandy is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

Note 1. Summary of Significant Accounting Policies, continued

Income Tax Status Big Sandy is exempt from federal and state income taxes under provisions of Section 501(c)(12). Accordingly, the financial statements for Big Sandy include no provision for income taxes. Big Sandy's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Management believes Big Sandy has no uncertain tax positions resulting in an accrual of tax expense or benefit. Big Sandy recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Big Sandy did not recognize any interest or penalties during the years ended August 31, 2012 and 2011. Big Sandy's income tax return is subject to possible examination by taxing authorities until the expiration of related statues of limitations on the return, which is generally three years.

Subsequent Events Management has evaluated subsequent events through January 18, 2013, the date the financial statements were available to be issued. There were no significant subsequent events to report.

Note 2. Investments in Associated Organizations

Big Sandy records patronage capital assigned by associated organizations in the year in which such assignments are received. The Capital Term Certificates ("CTCs") of CFC are recorded at cost. The CTCs were purchased from CFC as a condition of obtaining long-term financing. The CTCs bear interest at 3% and 5% and are scheduled to mature at varying times from 2020 to 2080.

Investments in associated organizations consist of:

	2012	2011
East Kentucky, patronage capital	$9,368,517	$8,131,313
CFC, CTC's	531,907	531,907
CFC, patronage capital	181,616	171,753
Other associated organizations	356,596	350,559
Total	$10,438,636	$9,185,532

Note 3. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30% of total assets, except that distributions may be made to estates of deceased patrons. The debt agreement provides, however, that should such distributions to estates not exceed 25% of the net margins for the next preceding year, Big Sandy may distribute the difference between 25% and the payments made to such estates. The equity at December 31, 2012 was 38% of total assets. Included in other equities are $645,408 of losses that will be offset with future years' non operating margins.

Patronage capital consists of:

	2012	2011
Assigned to date	$20,305,290	$18,571,749
Assignable margins	1,574,764	1,764,427
Prior years deficits	(614,520)	(645,408)
Retirements to date	(2,478,579)	(2,410,612)
Total	$18,786,955	$17,280,156

Note 4. Long Term Debt

All assets, except vehicles, are pledged as collateral on the long term debt to RUS, Federal Financing Bank ("FFB"), CFC, and National Bank for Cooperatives ("CoBank") under a joint mortgage agreement. First mortgage notes consist of:

	2012	2011
RUS, 0.22% to 4.93%	$8,999,313	$9,213,292
Advance payments	0	(689,595)
	8,999,313	8,523,697
FFB, 0.104% and 4.472%	11,188,986	9,030,799
CoBank, 3.26%	1,538,314	860,958
CFC:		
3.25% to 6.40% notes	547,128	1,433,486
Refinance RUS loans 5.10% to 5.70%	2,068,533	2,413,289
	2,615,661	3,846,775
	24,342,274	22,262,229
Less current portion	1,050,000	1,000,000
Long term portion	$23,292,274	$21,262,229

The long term debt is due in quarterly and monthly installments of varying amounts through 2039. The 3.25% to 6.46% notes due CFC are available for repricing every 7 years to either a variable or fixed rate. RUS assess 12.5 basis points to administer the FFB loans. Big Sandy has loan funds available from FFB in the amount of $7,397,000. These funds will be used for future plant additions. During 2011 $860,958 of CFC loans were refinanced with proceeds from CoBank.

As of December 31, 2012, the annual principal portion of long term debt outstanding for the next five years are as follows: 2013 - $1,050,000; 2014 - $1,075,000; 2015 - $1,200,000; 2016 - $1,120,,000; 2017 - $1,150,000.

Note 5. Short Term Borrowings

At December 31, 2012, Big Sandy had short term lines of credit of $2,500,000 available from CFC and $2,000,000 from CoBank. Big Sandy has advances against the CoBank line of credit during the audit period in the amount of $514,909 at an interest rate of 2.96%.

Note 6. Pension Plan

All eligible non-union employees of Big Sandy participate in the NRECA Retirement and Security Plan ("R&S Plan"), a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The Plan sponsor's identification number is 53-0116145 and the Plan Number is 333. A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Note 6. Pension Plans, continued

Big Sandy's contributions to the R&S Plan in 2012 and 2011 represent less than 5 percent of the total contributions made to the plan by all participating employers. Big Sandy made contributions to the plan of $232,759 in 2012 and $229,368 in 2011. There have been no significant changes that affect the comparability of 2012 and 2011.

In the R&S Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act ("PPA") of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the R&S Plan was between 65 percent and 80 percent funded at January 1, 2012 and 2011 based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the R&S Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

All eligible union employees participate in the American Funds Retirement Planning Center's 401(k) Savings Plan. This plan was converted from NRECA effective January 1, 2010. Big Sandy contributes 6% of base wages to the plan. The Corporation contributions to the plan totaled $76,349 in 2012 and $73,193 in 2011.

Note 7. Postretirement Benefits

Big Sandy sponsors a defined benefit plan that provides medical insurance coverage to retirees and their dependents. Participating retirees and dependents do not contribute to the projected cost of coverage. For measurement purposes, an annual rate of increase of 8% in 2011, then decreasing by 0.5% per year until 5% per year, in the per capita cost of covered health care benefit was assumed. The discount rate used in determining the accumulated postretirement benefit obligation was 5.50%.

The funded status of the plan is as follows:

	2012	2011
Projected benefit obligation	($3,855,796)	($1,547,992)
Plan assets at fair value	-	-
Funded status	($3,855,796)	($1,547,992)

The components of net periodic postretirement benefit costs are as follows:

	2012	2011
Benefit obligation - beginning of period	$1,547,992	$1,549,573
Net periodic benefit cost:		
Service cost	96,561	81,073
Interest cost	77,439	92,927
Net period cost	174,000	285,480
Adjust comprehensive income	2,295,785	-
Benefit payments to participants	(161,981)	(175,581)
Benefit obligation - end of period	$3,855,796	$1,547,992

Note 7. Postretirement Benefits, continued

Projected retiree benefit payments for the next five years are expected to be as follows: 2013 - $183,000; 2014 - $185,000; 2015 - $187,000; 2016 - $189,000; 2017 - $181,000.

Note 8. Related Party Transactions

Several of the Directors of Big Sandy and its President & General Manager are on the Boards of Directors of various associated organizations. One director is an employee of a local bank where Big Sandy conducts some of its banking functions.

Note 9. Commitments

Big Sandy has various other agreements outstanding with local contractors. Under these agreements, the contractors will perform certain construction and maintenance work at specified hourly rates or unit cost, or on an as needed basis. The duration of these contracts are one to three years.

Note 10. Environmental Contingency

Big Sandy from time to time is required to work with and handle PCBs, herbicides, automotive fluids, lubricants, and other hazardous materials in the normal course of business. As a result, there is the possibility that environmental conditions may arise which would require Big Sandy to incur cleanup costs. The likelihood of such an event, or the amount of such costs, if any, cannot be determined at this time. However, management does not believe such costs, if any, would materially affect Big Sandy's financial position or its future cash flows.

Note 11. Labor Force

Approximately 40% of Big Sandy's labor force is subject to a collective bargaining agreement. A three (3) year agreement was negotiated and approved for the period starting January 1, 2013 between Big Sandy and the International Brotherhood of Electric Workers ("IBEW").

Note 12. Rate Matters

East Kentucky increased its base rates to Big Sandy during August 2007, by 2%, in April 2009, by 7% and in January 2012 by another 5%. Big Sandy passed East Kentucky's increases on to its customers using the methodology prescribed by the PSC. The PSC granted Big Sandy an increase in base rates during November 2012 of approximately $910,000, or 4%.

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